



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 140 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 24th AND TUESDAY 25th JANUARY, 2022

The Monetary Policy Committee (MPC) held its first meeting for the year 2022 on the 24th and 25th of January 2022 in the light of waning optimism for a robust rebound in global recovery in 2021. This resulted from the persistence of the COVID-19 pandemic and emergence of new variants of the virus; persisting supply bottlenecks; global inflationary pressures; and the imminent commencement of monetary policy normalization by some major central banks. In the domestic economy, output growth recovery was relatively strong in 2021. It is however, expected to continue reasonably in 2022, following considerable improvement in the third quarter of 2021 and a positive outlook for the fourth quarter. This was hinged on the continued support of the monetary and fiscal authorities to sustain the current momentum. The Committee reviewed the developments in the global and domestic economic and financial environments in 2021, as well as the outlook and risks for 2022.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

The Committee noted that while the recovery of the global economy in 2021 fell below the initial forecast, final estimates showed considerable improvements over the 2020 outcome, evidence that the global economy was pulling out of the doldrum associated with the pandemic. Consequently, the recovery is gaining momentum with increasing consumer spending, upswing in investments and soaring world merchandise trade, above pre-pandemic levels. This reflects the resilience of economic agents in the face of new strains of the

virus and rising infection rates. The Committee, however, took cognizance of significant headwinds confronting the global economy in 2022, largely associated with the persisting threats of new variants of the coronavirus. The Advanced Economies are however, in a strong position to offset the impact of these headwinds with stronger policy support and better access to COVID-19 vaccines. Consequently, this group of economies have shown better resilience towards disruptions to the recovery. In the medium term however, the rising inflationary pressures and the gradual withdrawal of both monetary and fiscal stimuli may dampen the recovery in 2022.

In the Emerging Market and Developing Economies (EMDEs), poor access to vaccines and limited policy support meant that this group of economies have been harder hit by the Covid-19 health crisis and its associated macroeconomic downturn. In China, one of the few countries that stayed out of recession in 2020, output weakened in the third quarter of 2021 and has continued to weaken as the Covid infections continue to rage amid power supply shortages and a turbulent property market. Following the containment of the infections in India, the economy has commenced a sharp recovery and is set to continue on an upward trajectory. Overall, growth in the EMDEs is expected to slow in 2022 due to the low level of vaccination and limited policy support in several economies in this group.

On price development, the MPC observed that inflation, in most Advanced Economies remained high and unlikely to abate in the short to medium term. This is driven by the persistence of supply side disruptions and pent-up demand associated with economic recovery. In the EMDEs, inflation has remained high due to a combination of persisting exchange rate pressures and supply bottlenecks associated with the lockdown restrictions. With the US Fed and central banks of other advanced economies now moving towards monetary policy normalization, the eventual interest rate hike may likely trigger huge capital outflow from the EMDEs which will further aggravate exchange rate pressures with a pass-through to domestic prices.

Global financial markets data show significant sell-off, as investors continued to rebalance their portfolios with the shift from assets such as gold and emerging market securities to securities of Advanced Economies suggesting market response to the impending interest rate hike. Thus, global financial conditions are expected to tighten as risk averse portfolio investors reassign their portfolios from perceived riskier emerging market securities, to less risky advanced economy securities with the expectation of improved yields.

Domestic Economic Developments

Staff projections showed that the economy is expected to remain on a path of positive growth, given the impressive performance in the third quarter of 2021 and continuing rebound in economic activities. The Committee noted with satisfaction, the significant improvement in the Manufacturing Purchasing Managers' Index (PMI), which rose to 52.0 index points in December 2021, compared with 50.8 index points in November reflecting the continuing economic recovery. This expansion was driven largely by increasing business activities in the economy, leading to increase in new orders and uptrend in employment and production levels. The Non-Manufacturing PMI, however, declined marginally to 48.0 index points in December 2021 from 48.6 points in November, largely reflecting a decline in services.

The Committee noted with concern, the slight increase in headline inflation (year-on-year) to 15.63 per cent in December 2021 from 15.40 per cent in November following seven consecutive months of decline. The unexpected increase was attributed to both the food and core components, which rose to 17.37 and 13.87 per cent in December 2021 from 17.21 and 13.85 per cent in November, respectively. The Committee, however, expressed confidence in the Bank's sustained intervention programmes, noting that inflation will continue to abate as food supply improves. Members also noted that the seasonal drive in price development associated with the December festive period was largely contributory to the marginal increase in price levels, and as such, believe that this episode of increase may be temporary.

Reviewing the developments in monetary aggregates, the Committee noted that broad money supply (M3) rose further to 13.77 per cent in December 2021, compared with 10.10 per cent in November 2021. This upthrust was largely driven by the growth in Net Domestic Assets (NDA) of 15.58 per cent in December 2021, compared with 9.40 per cent in November 2021. Net Foreign Assets (NFA), however decreased to 6.06 per cent in December 2021, compared with 14.98 per cent in November 2021. The sharp growth in Net Domestic Assets (NDA) was largely attributed to an increase in claims on the Federal government and other sectors. The slowdown in growth of Net Foreign Assets (NFA) resulted from a decrease in foreign assets holdings of the banking system in favour of more domestic investments.

The Committee reviewed the performance of the Bank's intervention programmes aimed at stimulating productivity in manufacturing/industries, agriculture, energy/infrastructure, healthcare and Micro, Small and Medium Enterprises (MSMEs). Between November and December 2021, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦75.99 billion to support the cultivation of over 383,000 hectares of maize, rice and wheat during the 2022 dry season, bringing the cumulative disbursements under the Programme to ₦927.94 billion to over 4.5 million smallholder farmers cultivating 21 commodities across the country. All excess output aggregated from the financed farmers will be released to the Nigeria Commodity Exchange (NCX) to help moderate the prices of food in the market. The Bank also released ₦1.76 billion to finance two (2) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS).

In addition, the Bank disbursed the sum of ₦151.23 billion under the Real Sector Facility to 15 additional projects in agriculture, manufacturing, mining, and services. The funds were utilized for both greenfield and brownfield (expansion) projects under the Covid-19 Intervention for the Manufacturing Sector (CIMS) and the Real Sector Support Facility from Differentiated Cash Reserve

Requirement (RSSF-DCRR). Cumulative disbursements under the Real Sector Facility currently stood at ₦1.40 trillion disbursed to 331 projects across the country. As part of its effort to support the resilience of the healthcare sector, the Bank also disbursed ₦498.00 million to two (2) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to ₦108.85 billion for 118 projects, comprising of 31 pharmaceuticals, 82 hospital and 4 other services.

To support households and businesses affected by Covid-19, the Bank disbursed ₦20.29 billion to 40,521 beneficiaries, comprising 35,340 households and 5,181 small businesses under the Targeted Credit Facility (TCF) within the period. The cumulative disbursements under the TCF stood at ₦369.78 billion to 777,666 beneficiaries, comprising 648,052 households and 129,614 small businesses. To further promote entrepreneurship development among Nigerian youths, the Bank disbursed ₦293 million to 59 beneficiaries under the recently introduced Tertiary Institutions Entrepreneurship Scheme (TIES).

Under the National Mass Metering Programme (NMMP), the sum of ₦47.83 billion was disbursed for the procurement and installation of 858,026 electricity meters across the country under the Scheme's Phase-0. The Committee also noted the improved collections by DisCos as a result of increased meter installations. The Bank released ₦274.33 billion to power sector players, as part of its effort to support the sector under the Nigeria Bulk Electricity Trading Payment Assurance Facility (NBET-PAF). This was in addition to the ₦20.58 billion released to Distribution Companies (DisCos) under the Nigeria Electricity Market Stabilisation Facility – Phase 2 (NEMS2). To further support the development of enabling infrastructure in the gas industry, the Bank released additional ₦3.00 billion for the augmentation of an existing infrastructure, bringing the cumulative disbursements under the Intervention Facility for National Gas Expansion Programme (IFNGEP) to ₦42.20 billion for six (6) projects.

Furthermore, under the 100 for 100 Policy on Production and Productivity (PPP), which was introduced to stimulate the flow of finance and investments to

enterprises and projects with potential to kick-start a sustainable economic growth trajectory, accelerate structural transformation, promote diversification, and improve productivity, the Bank has received 224 applications, valued at ₦294.91 billion for real sector projects in agriculture, energy, healthcare, manufacturing and services. The applications are currently being processed and the first batch of beneficiaries under the intervention will be announced on 31st January 2022, with their names published in national dailies. These projects have been carefully selected in line with the approved selection criteria as contained in the guidelines.

Money market rates fluctuated within and above the asymmetric corridor, reflecting prevailing liquidity conditions in the banking system. The monthly weighted average Open Buyback (OBB) rate increased to 12.75 per cent in December 2021 from 10.61 per cent in November 2021. The increase in the Open Buyback (OBB) rate reflected the tight liquidity conditions in the banking system.

The MPC noted the continuing positive performance in the equities market in the review period, with the All-Share Index (ASI) and Market Capitalization (MC) increasing by 1.61 and 1.63 per cent to 42,716.44 and ₦22.30 trillion on December 31, 2021, from 42,038.60 and ₦21.94 trillion on October 29, 2021, respectively. This positive performance reflected improved corporate earnings as investors participation increased in the market.

The MPC also noted the sustained resilience of the banking system, following the progressive improvement in the Non-Performing Loans (NPLs) ratio from 5.10 per cent in November 2021 to 4.85 per cent in December 2021- a first in a long time. The Committee also noted that the liquidity ratio remained well above its prudential limit at 41.3 per cent, though Capital Adequacy Ratio (CAR) declined marginally to 14.53 per cent in December 2021 from 14.90 per cent in the previous month. The Committee thus, urged the Bank to sustain its firm regulatory surveillance.

Members also noted the continued improvement in the external reserves despite ongoing foreign exchange market pressures. The reserves stood at US\$40.20 billion as at December 2021.

Outlook

The broad outlook for the recovery in both the global and domestic economies is clouded with uncertainty such as the resurgence of the COVID-19 pandemic, driven by new and mutating strains of the coronavirus; persisting supply bottlenecks; high and rising inflationary pressures; and dwindling monetary and fiscal stimuli.

The Emerging Markets and Developing Economies are likely to experience a sharp downturn as a result of the identified headwinds confronting the outlook. This is hinged on the back of the ongoing two-speed recovery of the global economy, driven by continued disparities in the administration of vaccines between the Advanced Economies and the Emerging Markets and Developing Economies. While the Advanced Economies will also experience a downturn in 2022, this group of economies are expected to take a less severe hit as most of them have achieved significant high levels of vaccination.

Staff forecast project output growth at 3.10 per cent in 2021 with an expected better outcome in 2022, consistent with the expected improved macroeconomic performance. The economic recovery is therefore expected to progress gradually with the ongoing support by the monetary and fiscal authorities, progress in COVID-19 vaccinations and continued high crude oil prices.

After a moderate increase in December 2021, headline inflation is expected to trend marginally upwards in the short-term before moderating towards the end of the first quarter of 2022. This is expected as food harvests progress towards the end of the first quarter of 2022 and improve food supply. In general, with the Bank sustaining its intervention programmes through the year, food inflation is expected to trend downwards in 2022.

Available forecasts for key macroeconomic variables for the Nigerian economy, indicated expected rebound in output growth for most of 2022, sustained by ongoing broad monetary and fiscal stimuli. Accordingly, the Nigerian economy is forecast to grow in 2022 by 2.86 per cent (CBN), 4.20 per cent (FGN) and 2.76 per cent (IMF).

The Committee's Considerations

The Committee accessed the balance of risks confronting the domestic economy in the near term as they impact output growth and price stability. Members noted the unrelenting effort by the monetary and fiscal authorities in mitigating the impact of the virus on the economy. It observed the continued moderate recovery of the domestic economy but requires further concerted policy effort by both the monetary and fiscal authorities to improve the momentum and strengthen the recovery. Members were thus of the view that, building on the improved growth in the third quarter and the positive PMIs in the fourth quarter of 2021, output growth is expected to strengthen into 2022.

On the Pandemic, the MPC reviewed its continued impact on the domestic economy as Members collectively agreed that the downside risks were still hindering the recovery. In this light, it commended the efforts of the Presidential Task Force on COVID-19 for procuring vaccines and continuing the drive to ensure that most Nigerians are fully vaccinated.

On price development, Members continued to express concerns about the impact of insecurity in farming communities on food inflation. Whereas headline inflation had been moderating for several months, the committee believed that its recent uptick was associated with increased demand during the festive season and was thus of the view that prices will return to the downward trajectory given the Bank's ongoing interventions in the agriculture sector. On this note, Members applauded the efforts of the Bank with the recent launch of the rice pyramids, noting that these efforts to increase food supply and stem food inflation were in the right direction. Members, however, reiterated the key

role of the Federal Government in providing the necessary security around the country, and particularly in the farming communities, to ensure that farmers and their produce remain safe, and food supply is both boosted and uninterrupted. The Committee noted that the ongoing dry season farming would further improve food supply and dampen prices.

Members noted the ongoing debate around the removal of fuel subsidy and suggested a robust engagement with relevant groups in the country, and afterward follow a stepwise and gradual approach, to ensure its moderate impact on cost of transportation and energy for individual, households and firms. The Committee also noted the need to encourage the take-off of private refineries across the country to provide alternative competitive local supply source and reduce the need for government intervention to manage fuel prices for domestic consumption. In addition to this, the Committee called for the speedy conclusion of the government gas-powered vehicle conversion scheme and other alternative sources of fuel.

On the exchange rate, the Committee applauded the Management's efforts at maintaining stability over the short term with increasing demand as the economy continues to reopen. Members noted the dwindling proceeds from oil sale, despite rising crude oil prices. They further noted the need to address the persistent reduction in remittance of oil revenue to the Consolidated Revenue Fund and urged the NNPC to urgently address this anomaly. The improved foreign exchange supply will thus support the Bank's demand management strategy in the foreign exchange market and consolidate macroeconomic performance, especially those that promote export, reduce dependence on import and reduce foreign exchange demand pressure. The MPC welcomed the improvement in foreign capital inflow through diaspora remittances and urged the Bank to further extend the incentive scope to attract more remittances to official channels.

The Committee noted the rising government debt profile and the concentration of the funding sources and its implications for fiscal sustainability and

macroeconomic stability, including its impact on financial system performance and growth. The MPC continued to urge the Government on the need to harness other sources of revenue to reduce its dependence on oil as a single revenue source. In addition, it reiterated the need for government to seek alternative, more viable, and efficient infrastructure financing sources, in order to ease its expenditure burden. To this end, Members called on the fiscal authorities to take advantage of InfraCorp, the private sector driven infrastructural vehicle and transfer viable infrastructure projects for consideration by the Corporation as this would ease pressure on Government, that would otherwise have to raise revenue through taxes from an already burdened private and household sector.

The improved performance of the equities market in the review period, signposted continued investor confidence in the Nigerian economy. This in the view of Members was a positive sign that the economy remained on a path to a more robust medium-term recovery.

The banking sector indices, in the consideration of Members, showed no less resilience as other macroeconomic indicators reviewed; even as obvious downside risks associated with the Pandemic continued to impact the business environment. Members thus applauded the Management's efforts in ensuring the continued downward trend of Non-Performing Loans (NPLs) ratio, signifying improving conditions in the banking system. Nevertheless, Members emphasized the need for the Bank to closely monitor developments in the sector and swiftly respond to any emerging challenges.

The Committee's Decision

The MPC observed with concern the moderate rise in inflation in December 2021, noting that this was typical of increased aggregate demand associated with the end of year festive activities. Members, however, expressed their continued commitment to drive down domestic prices by putting in place

relevant policy measures to curb the rise in inflationary pressures, while also supporting the fragile growth recovery.

In its determination as to whether to hold or loosen or tighten its policy stance, the MPC was mindful that, whereas the US and some Advanced Economies have signaled their intention to commence policy normalisation which may result in capital flow reversal for EMDEs, the major focus at these climes were targeted mainly at reining in the high level of inflation which had been unprecedented in the last four decades in those climes.

For Nigeria, members were of the view that Nigeria is confronted with, not only inflation but also fragile output growth. As a result, MPC believes that its current stance of price and monetary stability conducive for growth remain desirable. The MPC is convinced that various measures being implemented were helping, not only in boosting output growth, but also in moderating inflation. The MPC therefore, enjoyed Management to continue to use its development finance tools to accelerate output growth, which will also help in boosting manufacturing output that would ultimately aid moderation in prices. It also requested Management to continue its use of administrative measures, including discretionary tools at its disposal through CRR to control money supply in the economy.

In its final consideration, the Committee was clear that a loosening option was not desirable because it would trigger liquidity surfeit and fuel inflationary pressure as available funds may outstrip the economy absorptive capacity or domestic capacity utilization. It also feels loosening could trigger foreign exchange demand pressure, as the excess liquidity would be channeled to either frivolous importations or speculative holding of foreign exchange as alternative investment channels narrow; leading to foreign exchange depreciation and or inflation.

The MPC also dropped a tightening option at this meeting in view of the fragile state of the current GDP growth rate and potential external and domestic

headwinds confronting the economy. The Committee opined that tightening could truncate the steady improvement in credit performance, including other financial soundness indicators, and reverse the declining trend in NPLs. Moreover, tightening could counteract the CBN's credit expansion motive as a necessary condition for improved economic growth and employment generation.

The MPC, therefore, concluded that a HOLD stance remains desirable at this time, as this would indicate a conservative but cautious and consistent policy choice given the prevailing economic conditions and outlook, thus strengthening policy credibility and focus. It also feels that a hold would signal MPCs realisation of the fragility of the growth recovery and its sensitivity to emerging global and domestic uncertainties. Hence the need to sustain the current policy trajectory.

After a careful balancing of the benefits and downsides of each policy option, the MPC decided to hold all policy parameters constant; believing that a hold stance will enable the continued permeation of current policy measures in supporting the recorded growth recovery and further boost production and productivity, which would ultimately rein-in inflation in the short to medium term.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.

In summary, the MPC voted to retain:

- I. The MPR at 11.5 per cent;
- II. The Asymmetric Corridor of +100/-700 basis points around the MPR;
- III. The CRR at 27.5 per cent; and
- IV. The Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

25th January 2022

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The last two years have seen massive monetary and fiscal stimulus policies in response to the recessive impacts of the COVID-19 pandemic. Consequent upon the global rally in public spending and low interest rates, output is beginning to converge on the level prior to the pandemic in some countries, especially the advanced economies. At the same time, the costs of this policy path have started to manifest. Increased inflationary pressures have resulted from the combination of huge fiscal and monetary injections, high energy prices and disruptions in the supply chains of intermediate goods. And so, monetary policy must now aim to strike a balance between stimulating output and reining-in inflation. Against this background, we can extrapolate that monetary policy making is likely going to be quite challenging in 2022, especially for developing countries that are mostly posting fragile and sluggish output recoveries due to factors including poor access to vaccines and a variety of structural constraints on economic activity including weak policy support.

To the extent that inflation can be contained without harming growth, there would be little policy dilemma. However, the reality of most emerging markets and developing economies (EMDEs) is that output recovery remains quite fragile and therefore vulnerable in the face of aggressive anti-inflation policy stance. Output in this cluster, according to the World Bank, could remain substantially below the pre-pandemic trend for some time. That said, the pressure that these countries face go beyond slow output recovery and elevated inflation pressure. The drift towards policy normalization by central banks in the advanced economies threatens capital flows to these countries, thereby increasing the risk of exchange rate instability.

The complexity of the policy problem in the EMDEs vary in some respects by country. For commodity exporters like Nigeria, the expected moderation in global growth to about 4.0 per cent in 2022 from 5.9 per cent in 2021 could come with

softening demand for commodities (crude oil in the case of Nigeria) and price fluctuations. Up to Q3 2021, for which hard data is available, Oil and gas sector remained in contraction. This could worsen in the event of a significant decline in the price of crude oil. I see other important downside risks to domestic output recovery which together with my assessment of the inflation outlook, informed my decision to vote for a 'hold' at the January 2022 meeting of the Monetary Policy Committee (MPC).

In 2021, real GDP growth rate slowed from about 5.0 per cent in Q2 to about 4.0 per cent in Q3. Staff estimates for Q4 show a further decline to about 2.86 per cent. Although it is projected to inch up to 2.94 per cent in Q1 2022, it could slow again to 2.72 per cent in Q2 2022. Obviously, real output growth could remain sluggish in the year. This is further buttressed by the evolution of some of the indicators of economic activity. The non-manufacturing PMI, for instance, remained below 50 points in December 2021. In effect, policy support to key sectors of the economy continues to be relevant.

Headline inflation continues to be a challenge. It rose to 15.63 per cent in December 2021 from 15.40 per cent recorded in November 2021. The increase reflected increases in both core and food inflation in the month. Core inflation rose marginally by 0.02 percentage points to 13.87 per cent, while food inflation grew by 0.16 percentage points to 17.37 per cent in December 2021. Until December, headline inflation had steadily declined owing mainly to the sterilization operations of the Bank (which kept banking system liquidity close to its optimal level) and improved output of food brought about by the Bank's interventions in agriculture. As such, the sudden increase in inflation may be attributed to increased demand on account of year-end festivities. This effect is expected, going by staff projections, to taper-off as from February 2022. Considering this outlook, I saw no urgent need to tighten the stance of monetary policy at the January meeting.

Most fundamentally, the inflationary pressures the economy has experienced in the last two to three years have been driven mainly by non-monetary factors. Distribution bottlenecks and supply shortages have been its major undercurrent

since 2020, following the coronavirus-induced lockdowns and movement restrictions. The Bank's response so far has partly focused on alleviating major supply constraints using development finance interventions in the real sector of the economy. This approach has had the desired effect of lifting output and dampening consumer price pressures, especially in the foods sub-sector. I am persuaded that this strategy continues to be important in addressing much of the current price pressures.

While not discounting the risks presented by the drift towards policy normalization in the advanced economies, volatile energy prices and rising global inflation, I am minded that the timing of any adjustment in policy could be heavily consequential. Although most central banks are wary of these risks to inflation, only a few have responded with a hike in policy rate. I believe that a cautious approach to monetary policy is ideal at this time in view of the cloudy growth outlook. I should emphasize that the routine sterilisation actions of the Bank continue to be sufficient to rein-in banking system excess liquidity.

Against the backdrop of pressure on both output and prices, I must admit, monetary policy maneuvers would be difficult, to say the least. In the circumstance, complementary fiscal actions are needed to ease the burden of adjustment on monetary policy. Obviously, policy support has been very instrumental to macroeconomic recovery in 2021. More will be needed from the fiscal side in 2022 especially in sectors like agriculture, SMEs and solid minerals. In addition, physical infrastructure and security ought to maintain their priority position on the fiscal plate in year. On the monetary side, measures aimed at redirecting credit to these and other sectors of the economy would continue to be relevant towards addressing growth fragility. Luckily, the opportunity for that exists with the substantial improvement in banking system resilience. At end-2021, average industry capital adequacy ratio (CAR) stood at 14.53 per cent; non-performing loans (NPLs) was 4.85 per cent, indicating a remarkable improvement in the quality of risk assets and Liquidity ratio was 41.33 per cent.

I believe, the option of tightening policy using the policy rate remains on the table as long as inflationary pressures persist. I am however hopeful that the policy headroom for supporting growth will not narrow any further by the next meeting of the MPC in March 2022. Until then, my policy preference remains continuation of the extant strategy of targeted intervention in critical sectors alongside sterilization actions to rein-in excess banking system liquidity. I, therefore, voted to:

1. Retain the MPR at 11.5 per cent.
2. Retain the Asymmetric Corridor at +100/-700 basis points.
3. Retain the CRR at 27.5 per cent.
4. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Development

The international economic environment presents mixed picture and prospects in January 2022. On the upside are the continuous economic recovery from the impact of COVID-19, increasing rate of vaccination especially in the advanced economies, and expansion in global trade. Global economy in 2022 is projected to grow by 4.1%. Growth in Advanced Economies is expected to moderate to 3.8% in 2022, while Emerging and Developing Economies are expected to grow by 4.6% in 2022. However, on the flip side are, rising inflation, low vaccination rate in developing economies, high global debt, rising energy prices, and persistent supply problems and logistics constraints. Other downside risks include declining fiscal support and uncertainties around COVID-19 and its

variants. Global inflation is expected to remain above its pre-pandemic level in 2022, due to the base effects of stimulus packages, supply shocks and logistics problems. While, global trade has picked up, especially for goods trade, services trade remain subdued as some restrictions to movement remains in place in certain jurisdictions. Global debt declined slightly to US\$296 trillion in Q3 2021, after reaching an all-time high in Q2 2021.

The global community has resolved to limit global warming and shift energy demand trajectory in favour of green energy. This will impact on energy prices, energy investment and green technology. Again, for many developing economies, the pace of growth in China will impact on commodity prices and outbound Chinese foreign direct and portfolio investment. The pace of normalization in the Advanced economies will also impact on capital flows to developing economies as well as increase the cost of already high public debt.

Domestic Economic Development

Staff of the Bank presented the Economic Developments and Outlook Report, and the Banking System Stability Review Report. The Economic Developments and Outlook Report showed that the 4.03% growth in real GDP in Q3 2021 was driven by a combination of factors: rise in crude oil prices, credit expansion by 13.87% due to CBN Interventions and improved credit delivery from banks, expansionary fiscal policy, as well as base effects. Nevertheless, the Economic Report also showed that significant headwinds confront the economy. Inflation grew by 15.63% in December 2021, a slight increase from 15.40% in November 2021. This increase was driven by both food and core inflation. Food inflation was driven largely by demand for food during the festive season. The naira also depreciated by 0.04% to N414.34/US\$ in the I&E window. There was mixed performance of Purchasing Managers Indices (PMIs): manufacturing PMI rose to 52.0 index points, while non-manufacturing PMI remained below 50.0 index point, at 48.7 index points.

Federal Government fiscal operations in 2021 resulted in huge budget deficits. As at Q3 2021, FGN fiscal operations already resulted in overall deficit of over N7.5 trillion. Broad Money, M3, grew by 13.77%, which is 4.33 percentage points above the provisional level. The growth in broad money was driven by its components: Net Foreign Assets (NFA) grew by 6.06%, a -6.73 deviation from the benchmark, while Net Domestic Assets (NDA) rose by 15.58%, 17.44 percentage points above provisional level. Growth in NDA was mainly driven by Net Claims on Government, which exceeded provisional level by 5.5 percentage points.

Interest rate spread month-on-month widened to 25.3% in December 2021. While prime lending rates declined to 11.68%, maximum lending rates rose to 27.58%. Average savings rates declined to 1.25%. The administrative measures put in place by the CBN, restrained liquidity surfeit in the system. Tight liquidity conditions prevailed in the banking system as average net liquidity balance stood at N182.71 billion as at end-December 2021, below the benchmark of N313.8 billion – N450.00 billion.

The external sector also showed mixed performance. External reserves, FPI and FDI inflows declined. On the other hand, trade balance, current account balance and remittances rose between Q2 and Q3 2021. Remittances rose marginally from US\$4.92 billion in Q2 2021 to US\$4.97 billion in Q3 2021. Petroleum producers accounted for 18.31% of total imports in Q3 2021.

The Banking System Stability Review Report showed that the banking system remain safe, sound, and resilient. Capital Adequacy ratio though declined slightly from 15.1% in December 2020 to 14.53% in December 2021, this is still above the prudential requirement of 10.0%. Non-Performing Loans Ratio fell below the 5% prudential requirement, for the first time, after a lengthy period. Liquidity ratio at 41.33% was also higher than 30% prudential requirement. Both Returns on Assets and Returns on Equity fell in December 2021 relative to December 2020. Operating costs to income rose from 68.2% in December 2020 to 73.1% in December 2021. The report also showed growth in total assets, total

deposits as well as total credit to the economy. Gross credit rose from N20.48 trillion in December 2020 to N24.57 trillion in December 2021. The growth in bank credit is largely due to the LDR policy of the CBN. The report also confirmed that credit is increasingly becoming more expensive in the economy.

My Concern

The pace of economic recovery in Nigeria is still very weak, and unable to effectively impact on unemployment and poverty. The elevated level of inflation, amid rising budget deficit, insecurity, pressure on exchange rate and poor state of infrastructure are important challenges. This is compounded by the fact that 2022 is a pre-election year in Nigeria. The normalization in the Advanced Economies and the reaction by several central banks in emerging economies implies that we cannot be impervious to this development. The US FED has already provided a forward guidance on at least three rate hikes in 2022. This will affect foreign currency exposures of the Federal Government and private sector institutions, especially commercial banks. It may also lead to more exits of FPIs from local equity market.

An important feature of the 2020 Budget is the centralisation of government agencies accounts (GOE), and the provisions that government agencies cannot spend more than 50% of their earnings. While on paper, this may be a good thing to drive up revenue, one only hopes it will not introduce bureaucracy into the functioning of some agencies and affect their flexibility to respond to urgent issues and ability to compete in the marketplace.

While world oil prices are trending upwards, Nigeria is unable to benefit maximally from the rising prices in terms of increased contributions of oil to government fiscal revenue and foreign exchange reserves, because of the drop in oil production and exports, as well as the negative effects of oil price subsidy. As of January 21, 2022, crude prices for Bonny Light stood at US\$89.03 per barrel. Crude oil spot prices are expected to exceed US\$90 per barrel in Q1

2022. By December 2021, oil production stood at 1.52 mbpd, which is significantly lower than the budget benchmark of 1.86 mbpd.

As I had indicated in my earlier Personal Statements, Nigeria needs to diversify foreign exchange earnings from crude oil and portfolio capital, because of their inherent volatility. We must explore diaspora remittances and non-oil exports. We must remove the bottlenecks to non-oil exports. Customs and related agencies should focus on trade facilitation, and not just, maximization of revenues. The Bank Staff reports also contained some excellent suggestions that the Bank should explore, including mainstreaming unregistered online transfer channels to Nigeria, removal of bottlenecks inhibiting the seamless remittances of funds by Nigerians in diaspora, among others.

I am also concern by the elevated level of budget deficit in the 2022 budget. The government estimated a budget deficit of N6.39 trillion. However, recent experiences have shown that revenue projections are usually over optimistic, while actual expenditures exceeded projected expenditures. Hence, there is every probability that we may overshoot the budget deficit just like in the previous years. The normalization policy in advanced economies will likely raise costs of foreign debts. The domestic option also has the potential of crowding out private investment, as well as inducing inflation. Government should explore non-debt options to finance capital projects. It should also produce a credible programme to wind down petroleum subsidy.

CBN intervention programmes remain a vital component of lowering inflation and facilitating economic growth, However, it is important to rationalize the programmes, with a view to strengthening the components of the intervention that promote economic expansion, poverty reduction and employment generation.

My Vote

There are still many uncertainties within and outside the domestic economy. Economic growth remains very fragile. While inflation ticked up marginally in

December 2021, it is too soon to tell whether it is a trend or a blip. Hence, the next few months remain very important. We must protect current growth trajectory to reduce socio-economic problems in the country.

Hence, I cast my vote to maintain all monetary parameters at their extant values:

- 1) MPR at 11.5%
- 2) CRR at 27.5%
- 3) LR at 30%
- 4) Asymmetry Corridor around the MPR at +100/-700 basis points.

3. AHMAD, AISHAH N.

The headwinds that characterized the global economy following the outbreak of COVID-19 have persisted with rising uncertainty. Although output in many countries rebounded in 2021 following a sharp decline in 2020, increased volatility in commodity prices, monetary policy normalization in some advanced economies and impending monetary policy rate hikes by the US Federal Reserve (Fed), in particular, remain key considerations for the global economy.

As advanced economies raise policy rates, risks of capital flow reversals and secondary effects on currency depreciation and domestic inflation in Emerging Market and Developing Economies (EMDEs)- especially with rising debt levels - are impossible to ignore. These combines with the pandemic maintaining grip in different parts of the world, prompting uncertain COVID-19 sovereign policy environment and weakened global growth prospects for 2022.

The World Bank in its January 2022 Global Economic Prospects Report, forecasts global output growth to decelerate to 4.1 and 3.2 per cent in 2022 and 2023, respectively, from 5.5 per cent in 2021 following persisting supply chain

bottlenecks and the gradual withdrawal of both monetary and fiscal stimuli.

Overall, global economic prospects are tilted to the downside.

In response to these developments, a couple of EMDE central banks have raised policy rates. Notably, the People's Bank of China (PBoC), reduced its policy rate by 10 basis points to 3.70 per cent this month, to spur domestic growth which has remained muted by prolonged downturn in the real estate sector. The PBoC's decision presents an alternative policy response which prioritizes strengthening domestic recovery over a reactive response to global monetary developments.

Notwithstanding amplified global risks, the domestic economy is expected to maintain its growth trajectory. Notably, the Manufacturing Purchasing Managers' Index, a leading indicator of output performance, rose to 52.0 index points in December 2021, compared with 50.8 index points in the preceding month, driven largely by increased economic activities, reflected in growth in new orders, employment and production levels. This development, coupled with the relatively strong output growth of 4.03 per cent in the third quarter of 2021, provides cautious optimism for continued expansion in economic activities in the short-to medium-term. This positive outlook is, however, predicated on sustained and coordinated monetary and fiscal policy support in view of lingering headwinds.

An uptick was reported in headline inflation (year-on-year) to 15.63 per cent in December 2021 from 15.40 per cent in the preceding month. This follows 8 consecutive months of decline and partly reflects seasonal festive season spike in demand. Food and core components rose to 17.37 and 13.87 per cent in December 2021 from 17.21 and 13.85 per cent in November 2021, respectively. This recent price development appears transient and is expected to abate in the near term as supply-demand imbalances wane amidst efforts to strengthen food supply. Notwithstanding, the Bank's liquidity management tools will be important to curb monetary induced inflation, in view of the surge in broad

money (M3) to 13.77 per cent in December 2021 from 10.10 per cent in the previous month.

The continued improvement in external reserves is noted, which stood at US\$40.20 billion as at December 2021 despite challenges with foreign exchange supply. The inherent risk of capital flow volatility and exchange rate pressures, on the back of monetary policy normalisation in some advanced economies were key considerations for monetary policy. The effect on external reserves should be moderate in view of the tepid portfolio inflows recorded in the last few years, despite the relatively high yields. Nonetheless, ongoing initiatives aimed at boosting domestic exports and opening sustainable channels of foreign exchange supply remain imperative and must continue to be pursued.

The financial system maintained its resilience into 2022 as data provided by Bank staff indicated stability in broad soundness indicators and an unprecedented improvement in asset quality, even as credit to the private sector continued to grow. Capital adequacy as at December 2021 was robust at 14.53 per cent, 453 basis points above the regulatory minimum of 10 per cent. Industry liquidity was also strong at 41.33 per cent over the same period and supported by significant cash reserve requirement buffers available to provide liquidity backstops should banks require it.

Key industry aggregates also continued their year-on-year upward trajectory with total assets rising to N59.24trillion in December 2021 from N50.99 trillion in December 2020, while total deposits rose to N38.42 trillion from N32.21 trillion over the same period. Total credit also increased by N4.09 trillion between end-December 2020 and end-December 2021 with significant growth in credit to manufacturing, General commerce and Oil & Gas sectors. This impressive increase was achieved amidst continued decline in non-performing loans ratio from 5.10 per cent in November 2021 to 4.94 per cent in December 2021 (6 basis points below the regulatory benchmark) for the first time in over a decade.

Furthermore, results of stress tests showed resilience of banks' solvency and liquidity ratios in response to potential severe macroeconomic shocks. **However, the Bank must remain vigilant to proactively manage probable macro risks to the financial system** such as lingering spillover effects of the pandemic, winding down of forbearance measures, and myriad risks to financial stability including exchange rate, operational and cyber security risks.

Policy Decision

The outlook for global recovery hinges on some key factors – the path of the pandemic, spillover effects of tightened monetary policy by the Fed, lingering supply chain disruptions, inflation persistence especially in advanced economies and output developments in China to mention a few. These issues have implications for Nigeria's economic resilience as the economy remains confronted with idiosyncratic challenges such as limited fiscal space in view of high budget deficits, despite substantial efforts to improve government revenues. This underscores the importance of ongoing CBN interventions in critical output enhancing sectors of the economy and the need for coordinated monetary and fiscal policy efforts at holistically tackling our underlying structural challenges.

With inflation far above the guideline benchmark of 6-9 per cent combined with fragile output growth, a difficult trade-off becomes apparent, requiring a nuanced policy decision-making approach. First, the weak output growth requires much more policy support to strengthen the recovery, especially with lingering unemployment. Second, the current pressures on domestic prices are adjudged largely supply related, as such, increased production of goods and services and minimizing distribution bottlenecks should help mitigate price developments in the short-term.

Overall, whilst a policy rate hike appears justified in view of the current price level, it would be prudent to further monitor the recent path of domestic prices as well as the effects of policy normalization in practice before a more hawkish

policy decision is taken. Naturally, this view must be balanced with consciousness of not leaving it “too late” to take action. This consideration ensures that short-term policies do not undermine the long-term prospects of the economy, while the corrective effects of previous policies are allowed to filter-through with minimal distortive policy shocks.

In view of the above, I vote to maintain the current monetary policy stance by retaining the Monetary Policy Rate (MPR) at 11.5 per cent, Cash Reserve Ratio (CRR) at 27.5 per cent, Liquidity Ratio (LR) at 30.0 per cent and the asymmetric corridor at +100/-700 basis points around the MPR.

4. ALIYU, AHMED

INTERNATIONAL AND DOMESTIC ECONOMIC DEVELOPMENTS

The Monetary Policy Committee (MPC) held its first meeting in 2022 within an environment of persisting global macroeconomic challenges, exacerbated by headwinds associated with increasing cases of the Omicron variant of the COVID-19 virus. Inflation, in the Advanced Economies, initially thought to be transitory, has maintained an upward trajectory, developing above forecasts. While supply chain disruptions and rising energy and commodity prices have been the major drivers of inflation in the Advanced Economies, rising food and commodity prices have been identified as the main drivers of inflation in the Emerging Markets and Developing Economies (EMDEs), particularly in Sub-Saharan Africa, including Nigeria. Against this background, the IMF in its January 2022 edition of the World Economic Outlook (WEO) downgraded its 2022 global growth forecast to 4.4 percent from 5.9 percent.

While many Advanced Economies believe that raising benchmark interest rates is justified in the current circumstances, the weaker than anticipated global and domestic economic conditions, signaled the need to be cautious in order not to disrupt the smooth functioning of financial markets. In light of the rising trend of inflation, the US and EU have hinted on plans to commence tightening of monetary policy in 2022, while the UK has already raised its bank rate by 0.15 percentage points in December 2021. Conversely, China cut its benchmark policy rate to bolster output growth, considering the 0.9 percentage points decline in growth year-on-year between Q3 - Q4 2021.

Global trade at 9.5 percent in 2021 is projected to slow to 5.8 percent in 2022 and to a further 4.7 percent in 2023, due to lower-than-expected level of activities arising from constrained production, supply chain bottlenecks and waning demand. While the strong performance in 2021 was driven by a positive shift in merchandise trade, services trade is anticipated to slowly recover in 2022, particularly in sectors hard hit by the Pandemic.

Crude oil prices, buoyed by positive market sentiments, sustained an upward path in the review period. The OPEC Basket, Bonny Light, UK Brent and West Texas Intermediate sold at US\$88.55/b, US\$89.03/b, US\$87.89/b and US\$85.14/b, respectively, as at January 21, 2022. For oil exporting EMDEs, the current oil price development is expected to improve growth projections, particularly as geopolitical concerns over tight energy supplies point to further increases in oil prices.

Staff report suggests that global financial conditions are likely to tighten in 2022 following the imminent commencement of monetary policy normalization by some Advanced Economies, which could affect portfolio flows to emerging markets and raise borrowing costs and debt levels.

THE DOMESTIC ECONOMY

The domestic economy grew strongly in the second and third quarters of 2021 pointing to a relatively strong recovery from the COVID-19 pandemic. Real GDP grew by 4.03 percent year-on-year (y-o-y) in Q3 2021, from 5.01 percent y-o-y in Q2 2021. On quarter-on-quarter (q-o-q), Real GDP grew by 11.07 percent in Q3 2021 from -0.79 percent in Q2 2021. Staff forecast suggests that the economy will grow by 2.86 percent in Q4 2021 based on sustained increase in crude oil prices and continued improvement in credit expansion, business sentiments, and productive activities.

Manufacturing PMI increased above the 50-benchmark point in November and December 2021 at 50.8 and 52.0 index points, respectively, on account of the improvement in business sentiments, even though the Non-Manufacturing PMI

remained below the 50-benchmark point in the same periods at 48.6 and 48.7 percent, respectively, due to worsening employment outlook. Similarly, the output gap narrowed and is estimated to lessen further by 1.5 percentage points from -3.3 percent in 2021Q3 to -1.8 percent in 2021Q4.

Recent price developments show an uptick in headline inflation in December 2021. Headline inflation y-o-y grew by 15.63 percent in December 2021 from 15.40 percent in November 2021. The National Bureau of Statistics (NBS) attributed the uptick in inflation to the increase in demand for food items, higher logistics and transportation costs associated with year-end festivities. The core and food components of headline inflation increased by 0.02 and 0.16 percentage points, respectively.

Monetary developments show a month-on-month (m-o-m) increase in Broad Money (M3) by 13.77 percent or 4.13 percentage points above the 2021Q4 benchmark of 9.64 percent. The growth in broad money was largely due to the 6.18 percentage points increase in Net Domestic Assets. Similarly, Monetary Base grew by 2.32 percent m-o-m, led by expansion in currency-in-circulation (CIC), Other Reserves and Cash Reserve Requirements (CRR).

Money market developments witnessed steady low yields in Government securities due to huge demand at auctions. Average Open Buy Back (OBB) rate, m-o-m, rose to 12.95 percent (+285bps) in December 2021, due to tight liquidity conditions in the banking system. Developments in the equities market show that market indicators improved in the review period, due to price appreciations in blue-chip stocks and profit-taking activities of investors.

The banking sector remained sound, safe and resilient as Financial Soundness Indicators (FSIs) were within their regulatory thresholds. Industry Capital Adequacy Ratio (CAR) at 14.53 percent at end-December 2021, remained above the 10 percent regulatory minimum. Asset quality measured by Non-Performing Loans (NPLs) improved to 4.94 percent at end-December 2021, below the regulatory threshold of 5 percent. The improvement in NPLs is

attributed mainly to sound regulatory oversights of the CBN during the year. Gross credit rose from N20.48 trillion in December 2020 to N24.57 trillion in December 2021 on account of increased industry funding base and CBN's directive on Loan to Deposit Ratio.

On the external front, the gross external reserves at US\$39.96 billion on January 20, 2022 could support 7.51 months of import of goods and services and 10.13 months of import of goods only. The Total Debt to GDP ratio was within sustainable levels in accordance with comparable benchmarks.

CONSIDERATION FOR VOTING

Highlights of developments in the domestic economy indicate sustained progress in economic recovery. Monetary policy actions since the onset of the COVID-19 pandemic have proved effective in addressing the adverse impacts of the Pandemic, with the economy coming out of recession sooner than expected and growth sustained for four consecutive quarters. But despite the recovery, growth remains fragile. While real GDP is projected to grow at 2.86 percent in Q4 2022 (below the 33.3 percent rate of unemployment), it indicates a declining trend from the previous quarters, notwithstanding the associated base effects. Available data shows that inflation moderated for eight consecutive months, before the marginal increase recorded in December 2021.

While it is evident that efforts made in the last few months yielded positive results, current strategy should focus on what more could be done to take growth beyond its historic average, engender an all-time low and stable inflation and significantly improve the welfare of the people. I cannot under-emphasize that price stability remains the principal objective of the Committee. The uptick in inflation in December 2021, is a source of concern, as it suggests inflation persistence, even though the inflation report submits that seasonal effects played a significant role. In this regard, policy actions should continue

to focus on price stability conducive to medium to long term growth, rather than dwell on factors that are likely to be temporary.

Monetary policy tightening is worth contemplating at this meeting, considering the likely liquidity impact of election related spending and the implementation of the 2022 budget by the three tiers of government. I however, share in the view that the current stance of policy which has aided growth and price moderation for most part of 2021 be sustained through the first quarter of 2022, while emerging evidence of their implication on Consumer Price Index (CPI) is assessed, for subsequent policy intervention.

Reflecting on the rising inflation in Advanced Economies and the imminent normalization, it is unclear to what magnitude these would impact on the domestic economy particularly on capital inflows to warrant monetary policy action at this time. What is critical, however, is to strengthen existing institutional framework and ongoing efforts at infrastructural development, to encourage inflow of capital that would stimulate growth and create employment.

In addition, developmental interventions should be reinforced in export-oriented activities, especially non-oil exports, given that the current crude oil export dependence of the economy, may no longer be feasible in the longer term as emphasis shifts from fossil fuel to clean energy.

On fiscal operations, the Government will continue to implement and deploy critical reforms and infrastructure to strengthen its finances, create fiscal space and adequately manage the public debt. In this regard, Government remains committed to the implementation of the Strategic Revenue Growth Initiative (SRGI) to improve its revenue and entrench fiscal discipline.

On this note, I feel that maintaining the status quo would be apt in the circumstances. I therefore, vote to retain all policy parameters at their extant levels as follows:

- MPR at 11.5 per cent

- The asymmetric corridor at +100/-700 basis points around the MPR
- Liquidity ratio at 30.0 per cent
- CRR at 27.5 per cent

5. ASOGWA, ROBERT CHIKWENDU

Policy Decision:

On the basis of an assessment of the current and evolving macroeconomic situation at both the global and domestic levels, I believe that a continuation with the ongoing accommodative stance is necessary so as to sustain the growth recovery process. Also, given the risks and uncertainties that remain in the domestic economy, a premature withdrawal of the stimulus programme will be counterproductive. As such, a patient policy approach which will support growth whilst achieving the medium –term target for inflation is the preferred decision.

I will therefore vote to:

- Retain the MPR at 11.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +100/-700 basis points
- Retain the Liquidity Ratio at 30.0%

The key considerations that underlie this decision and which relate to assessments of the current global and domestic economic developments are explained below.

Assessment of the Global Economy:

Available information suggests that the global economy has continued to recover despite the spread of the new coronavirus variant. In many countries, economic activity lost some dynamism but has not contracted significantly. Latest forecasts indicate that global GDP growth in 2022 will remain robust but will moderate from 6.5 percent in 2021 to 3.5 percent in 2022 and 2023, partly because of the expected lower growth in the USA and China and also as policy stimulus is withdrawn in a number of countries. CBN staff report indicates a 2021 third quarter GDP contraction in such large economies as USA, UK, the Euro

Area, Japan, China, Brazil and Russia. However, there were signs of growth rebound in many of these countries by the fourth quarter 2021 although official GDP results are not yet out. Preliminary evidence show that global aggregate demand entered the expansion zone in the fourth quarter with exports and imports markedly exceeding the third quarter 2021 levels. Also, the composite global purchasing manager's index (PMI) improved to a four-month high in November 2021 with services further dominating manufacturing.

The global financial market remains highly volatile partly as a result of uncertainties regarding several policy actions in a number of advanced economies. Global equity prices have recently declined since December 2021 especially in developed economies owing to a combination of higher expected interest rates and increased geopolitical tensions. Government bond yields have started a somewhat upward swing in recent times in many developed countries partly responding to inflation and also reflecting the general expectation that policy interest rates will soon be raised while currencies in a significant number of countries have also appreciated against the dollar.

Global inflation has continued an upward trajectory with many countries now posting highest levels in decades due partly to the recovery in global demand in the midst of supply chain disruptions. Current energy prices and prices of some agricultural commodities remain at higher levels compared to the same period last year with slight improvements on a month-on-month basis. As at now, there is considerable uncertainty about the persistence of global inflationary pressures with upward revision in current inflation forecasts. For instance, in Canada, the outlook for inflation in 2022 has been revised upwards by about three-quarters of a percent. In the UK, the inflation rate in April 2022 is also projected to peak around 2 percentage points higher than had been expected in December 2021.

Amidst significant increases in current and expected inflation, many central banks are now withdrawing monetary accommodation. However, the

decisions of the respective monetary authorities are not homogenous but rather take into account the progress in post-pandemic recovery in the different economies. For instance, the US Federal reserve increased the pace of reduction in monthly asset purchases, while keeping interest rates close to zero. The European Central Bank also announced a slower pace of asset purchases under the 'Pandemic Emergency Purchase Programme (PEPP)' in the first quarter of 2022 and discontinuation of PEEP by end-March 2022. The Bank of Japan also signalled the completion of additional purchases of commercial paper and corporate bonds by end-March 2022 and as from April 2022, it will revert to the quantum of purchases prior to the pandemic. Poland became the first country to raise rates in 2022 with a hike of 50 basis points on January 4, which was the fourth consecutive increase since the hikes commenced in October 2021. Peru, Argentina and Uruguay earlier raised rates in October 2021. Russia also effected its 7th rate hike in December 2021, while the Bank of England recently joined the rate-hiking club with a 15 basis point increase in policy rate. The Central Bank of Chile raised interest rates by 150 basis points in early January 2022, but there are several other monetary authorities that have adopted a patient approach to monetary policy as their economies continue to recover, despite inflationary surges. The Reserve Bank of India at its December 2021 meeting kept all policy parameters unchanged including the marginal standing facility. The Bank of Israel kept interest rate unchanged at 0.1 percent at its January 3, 2022 monetary committee meeting while the Bank of Australia also in early January maintained the policy rate constant but decided to cease further purchases under the 'bond purchase programme'.

Overall, the global future outlook is somewhat positive, but the path of recovery is still being shaped by the pandemic and its second order effects. Even though recent global purchasing managers index increased slightly and continues to indicate a relatively high level of economic expansion particularly in the services sector, there are still fears that global supply chain disruptions will persist far into 2022 and may continue to push up prices. While COVID-19 resurgences

are less likely in 2022, the fears about a new variant always triggers negative responses, like the black Friday plunge in global equity markets on November 26, 2021.

Current Domestic Economic Assessment.

The Nigerian economy had a strong momentum heading into 2022. A wide range of measures and indicators confirmed that the domestic economy rebounded strongly in 2021 with the impact of government interventions. According to CBN staff early forecasts, real GDP is estimated to grow by 2.86 percent (year-on-year) in quarter 4 of 2022. This actually looks moderate when compared with the 4.03 percent (year-on-year) growth recorded in the third quarter of 2021. However, on a quarter-on-quarter basis, real GDP expanded by 11.07 percent in the third quarter of 2021 as compared with -0.79 percent in the second quarter of 2021. This was driven by the strong recovery of the services sector particularly information and communications technology, and improved performance of the manufacturing sector. Such other indicators as the manufacturing and non-manufacturing PMIs as well the Manufacturers Association of Nigeria (MAN) CEO's confidence Index for December 2021 point to a good overall aggregate growth for 2021. The manufacturing PMI stood at 52.0 index points in December, which is an improvement on the 50.8 index points recorded in November 2021 and 47.5 points in October 2021.

With domestic economic recovery gaining momentum, all constituents of aggregate demand also entered the expansion zone, with exports and imports significantly exceeding their pre-COVID 19 levels. In the third quarter of 2021, the domestic current account balance recorded the second consecutive surplus after a prolonged period of over ten quarters consecutive deficits. CBN staff report shows that in the third quarter of 2021, the overall balance of payments (BOP) as a percentage of GDP increased significantly to 3.35 percent from 0.36 percent of GDP in the second quarter of 2021. GDP growth is expected to remain strong in 2022, supported by continued strong performance of the services sector, recovery in agriculture and an

improvement in global demand especially if oil prices sustain the ongoing favourable tempo in the months ahead.

The Nigerian financial market has been marked by appreciable growth since the previous MPC meeting especially the banking and equities markets. The banking sector remains stable and resilient with strong liquidity and adequacy ratios. The ratio of non-performing loans (NPLs) to gross loans stood at 4.94 percent in December 2021 from 5.3 percent in October 2021. The banking industry asset base increased by 16.17 percent from 50.9 trillion naira at end 2020 to 59.2 trillion naira at end 2021. Gross credit of the banking industry increased from 20.48 trillion naira at end 2020 to 24.57 trillion naira at end 2021, with manufacturing, general (retail and consumer), government, oil and gas recording the highest increases in gross credit between 2019 and 2021. The equity market also improved since the last MPC meeting as the All-Share Index increased by 1.61 percent between October and December 2021, while market capitalization increased by 1.63 percent during this same period. Meanwhile interest rates have remained fairly constant for some long period eventhough between November and December 2021, maximum lending rates rose to 27.58 percent from 27.26 percent, while average savings rate declined from 1.83 percent to 1.25 percent.

There are however three worrisome indicators at the time of this MPC meeting including, the inflationary rise in December 2021, the surge in M3 and the persistent debt buildup which are key issues of policy concern. First, inflation rate picked up in December 2021 after eight consecutive months of moderation. Headline inflation (year-on-year) rose to 15.63 percent in December from 15.40 percent in November 2021, while core inflation also rose marginally from 13.85 percent in November to 13.87 percent in December 2021. On a month-on-month basis, headline inflation stood at 1.82 percent in December 2021 compared with 1.08 percent in November 2021. While much of this temporary increase has been attributed to the usual 'December Demand Pressure', the lingering security issues may have also played a key role in the rise of the food sub-index. The second worrisome issue is the surge in broad money (M3) which moved very significantly from 4.72 per cent on a month-on-month basis at the end of September to 7.37 percent at end-October 2021 and further to 10.22 percent by November 2021. This

was above the regulatory maximum benchmark of 9.64 percent for that quarter. CBN staff report show that this growth was largely driven by increases in Central Banks claims on the Federal government and other sectors (public nonfinancial corporations, private sector, state and local governments). The key concern is that such significant monthly increases in broad money may sooner than later be adding to domestic inflationary pressures and this has to be closely watched. The third worrisome issue is the persistent debt build-up caused by the weak revenue performance resulting in an increasing fiscal deficit trend. CBN staff report show that the revenue-expenditure gap even further widened in October 2021 with public debt stock increasing from 32.2 trillion naira in September 2020 to 38 trillion naira in September 2021. Nigeria is however not alone in the debt dilemma as the global debt levels soared above 400 percent of global GDP early in 2021, but later declined to about 350 percent of global GDP by the third quarter of 2021. The main challenge is the lack of debt wisdom in Nigeria and with the debt service expenditure estimated at about 35.6 percent of the projected revenue in 2022, the road to long term recovery now seems more uncertain than previously anticipated.

6. OBADAN, MIKE IDIAHI

INTRODUCTION

Uncertainties and vulnerabilities have continued to define the global economy, especially relating to covid-19 infections and the attendant effects. There is uncertainty about the threats of the Omicron and future variants of COVID-19. Other notable uncertainties that confront the global economy include: the uneven distribution of vaccines; rising infection rate of COVID-19 by mutant strains of the virus; rising inflation; and persisting supply side constraints. These have tended to weigh down global recovery.

The recent months have witnessed renewed waves of COVID-19 infections across the world with massive outbreaks of the fast-spreading Omicron variant. The good news is that countries experienced lower death and hospitalization rates thereby allowing most governments to refrain from re-imposing lockdowns. Rather, they are relying on accelerated vaccination programmes supported by minor restrictions such as wearing of face masks, expanded testing, and limits on large gatherings. A few countries that imposed lock-downs are considering lifting them. For example, on the 26th of January, 2022, reports indicated that the Dutch authorities had decided to lift the lock-down on public places and gatherings including restaurants because the impact of the raging variant was lower than earlier feared. Thus, most countries, Nigeria included, have apparently decided to live with the virus. Consequently, economic activities have progressed in defiance to the resurgence of the pandemic compared with the first and second waves. Vaccinations are ongoing but with the Emerging markets and Developing Economies (EMDEs) being less favoured. The EMDEs remain confronted with poor availability and distribution of vaccines. Nevertheless, there is less likelihood of a full-scale lockdown as was experienced in 2020. This has favourable implications for global growth prospects and resolution of supply chain disruptions in 2022, other things being equal.

IMPLICATIONS OF GLOBAL DEVELOPMENTS

The global economy has sustained its recovery trajectory and the recovery in economic activities is expected to continue through to 2022 although at a

reduced pace. This is because of persisting supply bottlenecks, rising input costs and the continued impact of new and mutating strains of the covid-19 virus. Because of the persistence of the downside risks to output, coupled with the dissipation of pent-up demand and the gradual withdrawal of both monetary and fiscal stimulus, global growth is forecast by the World Bank to decelerate from 5.5 per cent in 2021 to 4.1 per cent in 2022 and 3.2 per cent in 2023. The expectation is that the global economy would return to its pre-crisis growth path by 2023. But then, slower global economic growth in 2022 has implications for the recovery of poor countries, Nigeria included.

Global trade experienced a strong recovery in 2021. But the recovery in goods and services trade is expected to moderate in 2022 and 2023 as base effects vanish. After reaching 9.5 per cent in 2021, growth in global trade volume is expected to slow to 5.8 per cent in 2022 and to 4.7 per cent in 2023. Downside risks to the global trade outlook, in the short term, include the rising COVID-19 infections connected to the Omicron variant and the associated supply chain disruptions. Another threat to global trade is persisting inflationary pressure driven by supply bottlenecks and exacerbated by the rapid recovery of global aggregate demand. The expected moderation of global trade will impact the Nigerian economy negatively considering its high degree of openness.

Global inflation has remained high, defying the earlier view of transience by central banks of Advanced Economies (AEs). It has reached historical peaks in countries such as the United States of America and United Kingdom. The implication of this for the Nigerian economy has been felt for some time now in the form of elevated role of imported inflation in the country's worrisome headline inflation.

Developments in the crude oil market have remained upbeat reflecting high prices which are well above the lows of the COVID-19 pandemic levels. As at 21st January, 2022, oil prices per barrel were as follows: OPEC basket, US\$88.55; Bonny Light, US\$89.03; UK Brent, US\$87.89. The main drivers of the high prices have been the continued strong demand and persisting OPEC+ supply ceiling.

However, the oil futures market suggests moderation in the price of crude oil to lie between US\$72.06 and US\$73.84 per barrel for December 2022 deliveries. Ordinarily, high oil price should be good news to Nigeria. But the country's subsisting production challenges and the heavy importation of refined petroleum products have so far prevented it from realising visible benefits from the high oil price regime in the form of accretion to external reserves, stability of the exchange rate and boosting of government revenue. It is imperative therefore for the Government to find lasting solutions to the oil production challenges and continued importation of petroleum products.

Many countries, especially the AEs, are gradually winding up the stimulus programmes that supported growth in their economies throughout 2020 and 2021, especially the monetary stimulus. While fiscal policy has maintained a strong momentum, monetary policy has elicited concerns arising from surging inflation and its downside risks to the recovery. Consequently, several advanced economy central banks have given indications to withdraw monetary stimulus and commence a regime of policy rate adjustments, invariably upwards. For example, the US Fed is expected to completely taper its US\$120.0 billion monthly asset purchase during the first quarter of 2022 and announce its first policy rate hike thereafter.

The implication of monetary policy normalisation is that global financial conditions will likely tighten and result in a portfolio shift from the EMDEs to the Advanced Economies as investors seek higher and less risky returns. It also implies higher borrowing costs which could hurt economic activity, especially for EMDEs, and possibly trigger a financial crisis through debt defaults. Thus, for EMDEs including Nigeria, there is the fear of capital flows reversal which could hurt their recoveries. However, the circumstances of each country should determine its response to the monetary policy normalisation by the Advanced Economies. Sizeable rate hikes may hinder their recovery.

CONSIDERATIONS FOR OPINION

In the past one year, the Nigerian economy has shown notable signs of recovery and resilience. The financial system demonstrated soundness, stability and resilience with the non-performing loans ratio falling below the prudential benchmark for the first time in recent history. The market for crude oil, upon which the economy depends heavily, rebounded strongly with high prices in the US\$70s or above. But the net positive impact on domestic revenue and foreign exchange has been very minimal because of subsisting production challenges and comatose local refineries. Fiscal performance is worrisome in the area of revenue generation and the attendant narrow fiscal space and public debt accumulation. Besides these are other issues which shape the direction of monetary policy.

Economic growth. No doubt, the economy has shown significant signs of growth since the exit from recession in the last quarter of 2020. With dwindling base effects, the growth rate in the fourth quarter of 2021 is projected to be about 2.86 percent. The GDP is forecast by four organisations to lie in the range of 2.4 to 3.1 percent on average in 2021. The forecast for 2022 is as follows: World Bank Group, 2.5%; IMF, 2.7%; CBN, 2.72% and FMFBNP, 4.2% which is understandable. Although they portray positive developments, they do not provide room for complacency. Besides, negative output gap persists being about -3.3 percent in Q3 2021, implying unemployment and underemployment of resources and under-utilisation of capacity in the key real sectors of the economy.

Thus, the growth achieved has not reached a level that provides room for celebration. It is not yet solid nor stable and there are numerous headwinds to it including uncertainties in the global economy, the looming normalisation of AEs' monetary policies; foreign exchange market pressures; unpredictable global oil market and risk of continuing low oil production hindering the country from leveraging the high crude oil prices; legacy infrastructure deficits and the persisting insecurity. The latter is a crucial factor in the persisting output gap as it has increasingly impacted food supply, prices and other physical economic

activities negatively. Further tightening of monetary policy will be injurious to the fragile growth achieved.

Issue of inflation. For eight consecutive months in 2021, there was good news about inflation decelerating up to November 2021. But the trend was disturbed in December with a marginal increase in the headline inflation rate to 15.63 percent from the 15.40 percent achieved in November. Food inflation, which is driven by structural and insecurity factors, accounted for a sizable proportion of the increase in headline inflation. Indeed, in December, food and non-alcoholic beverages contributed over 65.0 percent of the 15.63 percent increase in headline inflation and its weight in the basket of goods for computing inflation is over 50.0 percent. Also, December was a month of elevated economic activities arising from increased spending of savings aimed at meeting festivity needs and activities by many economic agents, thus elevating demand significantly in relation to supply of goods and services. The average price increase during that period was compounded by market actors who took advantage of glaring market imperfections to hike prices arbitrarily. In his press briefing on the inflation figures for December 2021, the Statistician General of the Federation attributed the upward movement of the year-on-year inflation rate last December to increased demand for goods and services during the Christmas festive season. Now that that season is over, the transient nature of the hike is manifesting in an observed downward trend of the prices of some goods. This suggests the likelihood of a decline in the inflation rate in the month of January 2022.

Issue of monetary injections and money supply growth. Yes, there have been notable monetary and fiscal injections into the economy to address the exigencies of covid-19 and recession. But the injections have not been targeted at just consumption which could easily spike inflation through the demand channel. Rather, a significant proportion of the injections have been aimed at boosting output and productivity of the real sectors and infrastructure development aimed at enhancing productivity which in the medium/long-

term should reduce the prices of goods and services, *ceteris paribus*. Consequently, a large part of the injections may be considered as non-inflationary. A consideration of the annualised monthly average growth rates of broad money supply (M3) in 2021 shows that it was only in November and December that the growth rates exceeded the provisional annual benchmark of 9.64 percent. There was a spike in money supply growth in those two months while it was far less in many other months, for example, 1.56% in February and 0.24 in March.

Extant monetary policy stance. This reflects tight stance with MPR at 11.5 percent; CRR at 27.5 percent excluding the administrative tightening measures, and Liquidity Ratio of 30 percent. If because of the rather transient marginal increase in inflation last December, some stakeholders are clamouring for a hike in MPR, will it address the significant non-monetary factors of inflation? No. Will it attract significant portfolio capital inflows? Most likely not. Foreign portfolio inflows in the last two years have been marginal.

Thus, further monetary policy tightening at this time may not address the non-monetary factors of the observed uptick in inflation nor attract capital inflows, the latter because of the challenges in the macroeconomic environment and wider economy. Rather, the Deposit Corporations will capitalise on an increased MPR to hike lending rates which would hurt much desired investment to catalyse growth.

Therefore, at this point in time, it is not desirable to pander to the calls for further tightening by some market participants that exhibit emotional reactions to macroeconomic indicators rather than engaging with them on the basis of knowledge and capacity. It will not be in the interest of the desired strong and stable economic recovery, price stability as well as poverty reduction to abandon policy support at this time.

Let us watch the growth and inflation trends and allow continuation of extant monetary and development finance measures, which have proved to be

effective in supporting growth and inflation control, till the next MPC meeting when the situation would be reviewed and appropriate decisions/actions taken.

In light of the foregoing, I vote to hold all the policy parameters constant, that is:

Monetary Policy Rate: 11.5 percent

Cash Reserve Requirement: 27.5 percent

Liquidity Ratio: 30.0 percent

Asymmetric Corridor: +100/-700 percent

Two issues of concern

i. Surging public debt. Public debt has surged to over N38.0 trillion. What appears also worrisome now is the composition which shows external debt as growing more than the target of 40.0 percent of total debt stock in relation to domestic debt of 60.0 percent. The latest data show the ratio as 46: 54 percent for external debt and domestic debt, respectively. This trend needs to be checked in view of the foreign exchange implications of external debt servicing.

ii. Call to resume sale of foreign exchange to the Bureaux de Change (BDCs). It may be recalled that since July 2021, the CBN has stopped sale of foreign exchange to the BDCs as a result of their sharp practices and inability to assist the Bank in its quest to achieve objectives relating to exchange rate stability. Their role was transferred to the deposit money banks along with the associated foreign exchange allocations. Now, some people are urging the CBN to resume sale of foreign exchange to the BDCs. In the Daily Trust Newspaper of January 25, 2022, Bode Augusto of Augusto & Co urged the CBN to resume sale of foreign exchange to the BDCs, failing which the parallel market rate will be between N610 and N620 naira in 2022. There is no logic in this. The BDCs are

now fully operating in the parallel market. One of the reasons for the suspension of forex sales to them was that they were operating like parallel market operators. Official foreign exchange sold to them were off-loaded in the parallel market. And so, resuming the sale of forex to them will not bring the parallel market rate down. Therefore, the calls to resume forex sales to the BDCs by the CBN should be ignored.

7. OBIORA, KINGSLEY ISITUA

In the face of fragile economic recovery, I voted to: retain the Monetary Policy Rate (MPR) at 11.5 per cent, the Cash Reserve Ratio (CRR) at 27.5 per cent, the Liquidity Ratio (LR) at 30.0 per cent and the asymmetric corridor of +100/-700 basis points around the MPR. This stance should complement the measures already taken by the Bank aimed at sustaining recovery, ensuring price stability and guaranteeing a stable banking system.

After two years into the Coronavirus Disease (COVID-19) pandemic, the virus continued to mutate with deleterious effects across the world. The discovery of the Omicron variant in late November 2021 has further dampened the prospect of global economic recovery. The number of confirmed cases has increased by over 100 million from 257 million to 358 million between November 2021 and January 2022 MPC meetings, representing an increase of 39.3 per cent, compared with 13.0 per cent between September and November 2021 MPC meetings. The global deaths toll also increased to 5.6 million from 5.1 million in the period under review. The recent surge has led to the imposition of some restrictions across the regions, especially in Europe, South East Asia, and Latin America. Also, the associated economic losses from the pandemic are expected to reach about US\$13.8 trillion by the end of 2024 – based on the IMF estimates. However, despite progress in global vaccination programmes, African countries continued to lag other regions in vaccination coverage. Only seven (7) out of fifty-four (54) countries in Africa met the 40.0 per cent target rate for full vaccination set by the World Health Organisation (WHO) by the end of 2021. With

this abysmal performance, achieving the target for 70.0 per cent coverage for all African countries by June 2022 will be highly unlikely. Therefore, there is an urgent need to overcome the challenge of ensuring equitable distribution of vaccines across the world.

Given the dynamics of COVID-19 infections and other related factors, the global economy is projected to moderate in 2022. Although the JPMorgan Global Composite Purchasing Managers' Index expanded for the eighteenth (18th) month, it has slightly declined to 54.3 points in December from 54.8 points in November 2021. The decline was in part attributed to weak consumer and intermediate goods. Accordingly, in the January World Economic Outlook (WEO), the International Monetary Fund (IMF) projected the global economy to moderate to 4.4 per cent in 2022 from 5.9 per cent in 2021. The expected moderation is due to the rapid spread of the Omicron variant, rising energy and food prices, supply chain disruptions with associated inflationary pressures, as well as the downturn in China's property sector. The growth in Advanced economies, Emerging Market and Developing Economies, and Sub-Saharan Africa is expected to moderate to 3.9, 4.8, and 3.7 per cent in 2022 from 5.0, 6.5 and 4.0 in 2021, respectively. Growth in the United States, Euro Area and the United Kingdom will moderate to 4.0, 3.9, 4.7 from 5.6, 5.2 and 7.2 per cent, respectively. In China, it will also moderate to 4.8 percent from 8.1 per cent in 2021. Nevertheless, these projections will depend on the dynamics of the pandemic, the speed of monetary policy tightening by advanced economies, supply chain disruptions and inflationary pressures.

Following the global trends, most analysts expect the domestic economy to slightly moderate in 2022. The latest official figures from the National Bureau of Statistics (NBS) showed a moderation of real GDP growth to 4.03 per cent in Q3 2021 from 5.01 and -3.62 per cent in Q2 2021 and Q3 2020, respectively. The moderate growth was driven by the non-oil sector, which grew by 5.44 per cent, compared with the oil sector that contracted by 10.73 per cent. In terms of relative contribution, Agriculture, Industry and Services contributed 30.0, 20.0, and 50.0 per cent, respectively. The overall growth was driven by oil price

recovery, proactive interventions by the monetary and fiscal authorities, as well as base effects. Accordingly, the IMF projected the domestic economy to moderate to 2.7 per cent in 2022 from 3.0 per cent in 2021. Encouragingly, the Manufacturing PMI moved into expansionary territory in November 2021. It expanded to 52.0 index points in December 2021 from 50.8 index points in November 2021, driven by production level, new orders, suppliers' delivery time, and raw materials inventories. Also, the rise in oil price that reached US\$89 per barrel during the January 2022 MPC meeting from US\$77 per barrel in November 2021 will significantly bolster domestic economic recovery. Inflationary pressures which had decelerated for eight (8) months, inched up to 15.63 per cent in December from 15.40 per cent in November 2021, driven by the increases in food and core inflation. The two components increased to 17.37 and 13.85 per cent in December from 17.21 and 13.87 per cent in November 2021, respectively. The factors responsible for the uptick included higher demand for food items during the festive season and logistics/transportation costs. Furthermore, the current account balance significantly improved from a surplus of US\$348.88 million (0.36 per cent of GDP) in Q2 2020 to a higher surplus of US\$3,680.28 billion (3.35 per cent of GDP) in Q3 2021, reflecting a decrease in the import of goods and services and net out payment of investment income. Gross external reserves, however, decreased by 0.69 per cent to US\$40.20 billion in December 2021 from US\$40.48 billion in November 2021, occasioned by foreign exchange sales at the Secondary Market Intervention Sales (SMIS) and Investors' and Exporters' (I&E) windows and direct payments, respectively.

Efficient supply and demand management policies by the Bank have led to the current relative stability of the Foreign Exchange (FX) rate. Apart from measures aimed at improving the supply-side of forex through the support of non-oil exports, the Bank is also working aggressively on the demand-side to eliminate the incidence of over-invoicing and mispricing of export/import of goods and services. That is why I support the current effort of the Bank in introducing the e-Valuator and e-Invoicing by February 1, 2022. It will replace the hard copy

invoice and will be part of the documentation required for all import and export transactions. The new regulation, which will be operated on a Global Price Verification Mechanism will be guided by a benchmark price. The aim is to eliminate over-invoicing, mispricing of exports and imports, as well as activities of money laundering. Reducing these loopholes through this measure will enable the Bank to save more foreign exchange earnings that will be channelled to the most productive sectors of the economy. This will boost local production capacity, promote inclusive growth and sustain a strong naira exchange rate.

The banking system continued to sustain its soundness, safety and resilience amid economic recovery. The total asset of the banking industry increased from N50.99 trillion from end-December 2020 to N59.24 trillion, representing an increase of 16.18 per cent, driven by balances with CBN/banks, OMO bills and credits. Accordingly, the banking system continued to increase the flow of credit to the real economy. The gross banking sector credit increased by N4.88 trillion or 22.0 per cent from N22.68 trillion at the end of December 2020 to N27.56 trillion at the end of December 2021. The increased credit was recorded in oil and gas, manufacturing, general, government, and general commerce. Furthermore, the Non-Performing Loans (NPLs) was below the regulatory benchmark of 5.0 per cent for the first time in several years. It stood at 4.94 per cent at end-December 2021, compared with 6.13 per cent at end-December 2020, attributed to recoveries, restructuring of facilities and write-offs during the year. The average monthly weighted average Open Buy Back (OBB) rates rose to 12.75 in December 2021 from 10.61 per cent in November 2021, showing tight banking system liquidity conditions – a reflection of the Bank's effort at reining the monetary side of inflation and ensuring a stable banking system.

The outlook continued to be hobbled by short to medium term imbalances. The transmission of the COVID-19 infections remained a key concern to the economic recovery globally due to its ravaging impacts on socio-economic activities. The domestic economic recovery is still fragile. Despite rising oil prices,

Oil Refining, Crude Petroleum and Natural Gas continued to contract in Q3 2021 with attendant consequences on fiscal revenues and external reserves position. Headline inflation continues to trend above the implicit target range of 6-9 per cent, driven largely by food inflation, thereby highlighting the need for the Government to address security concerns in the food-producing areas of the country. Though inflation inched up in December 2021, after eight months of deceleration, I believe the uptick is transient and will return in a few months to a decelerating trend. For example, in an effort to moderate food inflation, the Bank between November and December 2021 disbursed N75.99 billion to support the cultivation of over 383,000 hectares of maize, rice and wheat during the 2022 dry season, bringing the cumulative disbursements to ~~N~~927.94 billion to over 4.5 million smallholder farmers under the Anchor Borrowers' Programme (ABP). Furthermore, the economy is still confronted with structural and security challenges and lingering infrastructural deficits. The Bank has continued to support the economy through various interventions in critical sectors of the economy including infrastructure. For example, as part of the Bank's effort to support infrastructural development, the Bank disbursed ~~N~~274.33 billion to the sector under the Nigeria Bulk Electricity Trading Payment Assurance Facility (NBET-PAF). An additional ~~N~~20.58 billion was also released to Distribution Companies (DisCos) under the Nigeria Electricity Market Stabilisation Facility – Phase 2 (NEMSF-2). However, given the African infrastructure financing needs of US\$170 billion a year and a gap of about US\$100 billion a year according to the African Development Bank, Nigeria must attract private capital to complement the limited fiscal space. This is where initiative like the establishment of InfraCorp becomes necessary because it will attract funds across the globe, which will provide the basis for infrastructural development, increased productivity, double-digit growth and sustainable economic development.

Although inflation inched up in December 2021, the forecast suggests it will be temporary and will return to its decelerating trend in the coming months. On that

basis, and given the fragile growth recovery, I believe the best course of action is to hold all parameters. Therefore, I voted to:

- Retain the Monetary Policy Rate (MPR) at 11.5 per cent;
- Retain the Cash Reserve Ratio (CRR) at 27.5 per cent;
- Retain the Liquidity Ratio (LR) at 30.0 per cent; and
- Retain the asymmetric corridor of +100/–700 basis points around the MPR.

8. SANUSI, ALIYU RAFINDADI

1.0 Decision

I decided to vote for a hold on all the policy parameters in today's meeting, being the first for the year and under the condition of heightened uncertainties in both the domestic and global economic environments. On the global scene, the increasing possibility of policy normalization in the major advanced economies raises concerns for possible capital flows reversals with potentially adverse consequences on the exchange rate, inflation as well as public debt. On the domestic scene, being a pre-election year, uncertainties regarding the evolution of inflation, foreign exchange pressure as well as money market developments have also increased. Although the uptick in inflation in December 2021 appears to put a halt to the eight months of disinflation, it may be a temporary blip in response to the festive period's increased demand. Given these rising uncertainties, a hold on all the policy parameters appears to be the optimal choice for now.

2.0 Background and Justification

2.1 Global Economic Developments

The raging global inflation has hastened the planned pace of the well-anticipated monetary policy normalisation, including the tapering and rates hikes, across Advanced Economies (AEs). Although Nigeria's exposure to foreign portfolio may not be large enough to significantly affect the reserves position, the associated capital flow reversal and rising yields may have adverse effect on the domestic capital market, external debt service as well as the FG's fiscal plans.

The two major developments that shaped the medium-term global policy environment are the rising rate of inflation in the major advanced economies and the accompanying policy responses in the form of speeding-up of their monetary policy normalisation plans. While the rising inflation may have no immediate contagion effect on the domestic economy, it nevertheless signals the possibility of future higher import prices, hence, imported inflation. The

speedy policy normalisation implies that capital flows to emerging markets may dry up and reverse, putting pressure on their foreign reserves, exchange rates and, consequently, inflation. Indeed, many Emerging Market and Developing Economies (EMDEs) have started hiking their policy rates, partly, to moderate the adverse effects of this development.

During the last quarter of 2021, the global economy continued to recover in response to the unprecedented coordinated fiscal and monetary stimulus across Advanced Economies (AEs) and EMDEs. For the year 2021, global GDP growth is estimated at 5.5%, but is forecasted, by the World Bank, to progressively grow at the relatively lower rates of 4.1% and 3.2% in 2022 and 2023, respectively, as monetary policy is normalised and the pent-up demand wanes out. Output growth in the Advanced Economies is estimated at 5.0% in 2021, but will decline in 2022 and 2023 to 3.8% and 2.3%, respectively. In the EMDEs, however, output growth for 2021 was estimated at 6.3%, but is similarly forecasted to grow at the lower rates of 4.6% and 4.4% in 2022 and 2023, respectively. The progressively lower growth rates expected across the globe are due to the expected commencement of normalisation of policy, slower progress of vaccination in the EMDEs, persisting supply bottlenecks and the uncertainties driven by emergence of new COVID-19 variants. Output in the US is forecasted to grow (q-o-q) by 5.5% in Q4 2021 compared with 2.3% in Q3 2021. Output growth in the UK is forecasted to slow down to 0.9% in Q4 2021, compared with 5.5% achieved in Q3 2021. The Euro zone is expected to grow by 1.5% (q-o-q) in Q4 2021 compared with 2.2% achieved in Q3 2021. In Japan, output recovery is forecasted to continue in the 4th quarter as output grows by 1.0% compared with 0.4% achieved in Q3 2021. Although output growth amongst the EMDEs were forecasted to be mostly positive in Q4 2021, the rates have greatly varied. India and Nigeria are expected to record a somewhat higher q-o-q output growth rates of 12.7% and 5.1%, respectively, in Q4 2021. South Africa and Brazil are, however, forecasted to grow at 2.0% and 0.2% in Q4 2021 compared with the contraction of -1.5% and -0.1% recorded in Q3 2021, respectively.

The recovery of global trade in 2021 was fast, having grown at the rate of 9.5% during the year. It is, however, expected moderate to 5.8% and 4.7% in 2022 and 2023, respectively. Oil prices continued to be driven by rising demand, weather-related disruptions and OPEC supply ceilings. As at January 21, 2022, the price of OPEC basket stood at US\$ 88.55/b compared with US\$71.98 per barrel on September 14, 2021 and US\$54.38 per barrel in January 2021. The upward trend is expected to continue as the spot price is forecasted to reach US\$ 90/b in Q1 2022 and US\$100/b on Q3 2022.

Global price developments continue be driven by a combination of demand and supply side factors. These include the price of agricultural commodities, production input, high oil prices and supply bottlenecks. In AEs, inflation is forecasted to rise to 2.8% in 2021, but decline to 2.3% in 2022. Inflation in the US, Eurozone and the UK has been rising fast and well away from their long-term target of 2%. In the US, inflation rose to 7.0% (y-o-y) in December 2021 from 6.8% in November 2021. This is the highest rate recorded since 1982.

In the Euro area, inflation rose from 4.9% in November, 2021 to 5.0% in December, 2021 due to rising prices of food, energy, alcohol and non-energy industrial goods. In the UK, inflation increased from 5.1% in November, 2021 to 5.4% in December 2021. In the EMDEs, inflation is forecasted to increase to 5.5% in 2021 but moderate to 4.7% in 2022. In December, inflation rates in China and Kenya have declined, but have increased in South Africa, Egypt and Nigeria. Between November and December 2021, inflation increased in Egypt (from 5.6% to 5.9%), South Africa (from 5.5% to 5.9%) and Nigeria (from 15.4% to 15.63%).

Global capital flows to the emerging market has continued to decline. In the first half of 2021, FDI flows to low income economies declined by -9%. Portfolio flows also declined by 37.35% in between October and November 2021 in response to the expected policy normalisation in the AEs.

2.2 Domestic Economic Developments and their Implications

Although new national accounts data are not yet available, output growth, which had sustained a positive recovery since the 4th Quarter of 2020 when the economy exited the COVID-induced recession, is expected to remain positive. During the 3rd Quarter of 2021, output grew by 4.03% (y-o-y), outperforming the earlier projected rate of 3.33%. The output growth was driven by the non-oil sector, which grew by 5.44% (y-o-y). The non-oil GDP growth was driven by growth in services and agriculture. The oil output actually contracted by -10.73% (y-o-y) in Q3 2021 due to the fall in crude production. Given that the CBN's Purchasing Managers Index (PMI) for both Manufacturing and Non-manufacturing increased in October, November and December 2021, the 4th Quarter output growth is impliedly positive. Indeed, because the Manufacturing PMI for the months of November and December crossed the 50 index points threshold, it suggests strong manufacturing activities during the period, the growth of output in the Q4 2021 can also be expected to be strong. Staff forecasts show that output would grow by 2.86% for the Q4 2021 and 3.10% for the year 2021.

In December 2021, disinflation that started since April 2021 paused with an uptick in the headline inflation, slightly rising (y-o-y) from 15.4% in November 2021 to 15.63% in December 2021. The increase of 0.23 percentage points was attributable to higher demand during the festive season. Although both components of inflation increased during the period, the increase in food inflation was significantly higher and was the major driver of the increase in inflation. For instance, the food price component rose from 17.21% in November 2021 to 17.37% in December 2021; an increase of 0.16 percentage points compared with the relatively smaller increase of 0.02 percentage points increase in the core component during the period. The rise in core inflation was associated with the higher logistics/transportation costs and other seasonal effects. The rise in food inflation was due to the rise in demand for food during the festive season.

Available data shows that the resilience of the banking industry was sustained during the period under review. The Capital Adequacy Ratio (CAR) of the industry was 14.53% as at December 2021, which is above the regulatory minimum of 10%. There was also further improvement in the quality of the industry's assets as the Non-Performing Loans (NPLs) ratio fell below the regulatory maximum of 5% to 4.94% in December 2021. The industry's total credit to the economy also increased from N20.48 trillion in December 2020 to N24.57 trillion in December 2021, representing a 20% increase. In December 2021, a total of N855.48 billion new credits were granted to six sectors including Oil & Gas, Manufacturing, General, General Commerce, Agriculture and Construction accounted for 84.96% or N726.79 billion of the new credit. Analysis of the interest rate band reveals that 71.83% of customers paid interest rates of less than 15% in December 2021. In terms of the total amount lent, 41.43% of the 3.916 trillion naira was lent at less than 15% interest rates. This shows that interest rates are declining as more credit are being granted by the banking system.

3.0 The Basis for My Policy Choice

In choosing between the options to tighten or loosen the current policy stance, I voted for hold on all the policy parameters on the conviction that the uptick in inflation in December was a temporary blip in response to the rising demand during the festive period. Given that the output recovery is still fragile, and given the strength of the supply-side factors in the inflationary process, tightening may hurt output recovery and strengthen the supply constraints and exacerbate the inflationary pressures. Although this year is a pre-election year and significant liquidity injections as well as exchange rate pressure are expected, it is not yet time to tighten the policy stance through rates hike. The bank should continue to use administrative measure to manage liquidity, for now, as we monitor the evolution of inflation. A hold, in my opinion, is the optimal choice for now.

Consequently, I voted to:

Retain the MPR at 11.50 per cent;

Retain the CRR at 27.5 per cent;

Retain the asymmetric corridor at +100/–700 basis points; and

Retain liquidity ratio at 30.0 per cent.

9. SHONUBI, FOLASHODUN A.

Our first meeting in 2022 held on the back of a global economy that is challenged by heightened inflation and a recovery momentum that is been slowed by protracted supply-chain disruptions. Intermittent rebound, due to irregular reopening of economies and uneven vaccination rate, mainly between advanced and emerging market and developing economies

(EMDEs) in most of 2021 dampened the full impact of record level stimuli by monetary and fiscal authorities around the world.

Nigeria grappled with the negative spillover from disruptions to global growth in 2021 in the form of low demand for major commodity exports, shortfall in availability of essentials and imported inflation. However, despite lingering security challenges, the economy has witnessed continuous, though fragile growth. The Bank has remained at the forefront of facilitating growth via its intervention programmes and deliberate measures in the banking sector to enhance credit flow to the real sector. The monetary policy environment therefore continues to face the herculean task of managing the trade-off between staying accommodative to further improve growth and aggressively taking steps to curb high inflation, even with the strong pointer from the imminent gradual unwinding of accommodative policy in advance economies.

Brief Review of Global and Domestic Economic Developments

For the second year running, a major headwind to the global economic growth remains protracted disruptions to economic activities, caused by the pandemic. Despite the measured improvement in vaccination during 2021, further disruptive effects of new variants have heightened uncertainties. Though the advanced economies recorded some modest rebound, poor progress in vaccination rate and sub-optimal stimuli support limited the strength of rebound in the EMDEs. Elevated prices in advanced economies due to supply bottlenecks have also limited growth momentum, just as prices in EMDEs rose on account of imported inflation and pressured exchange rate.

Four consecutive quarters of growth post-recession, notwithstanding the multiple challenges in the socio-political and macroeconomic environment underscores the strength of rebound in the domestic economy. Driven mainly by sustained expansion in the non-oil sector, the path to sustained growth is underscored by improvement in other real sector indicators at the end of 2021. The Manufacturing Purchasing Managers' Index (PMI) rose further above the

50.0 index point to 52.0 points, just as the indices of industrial and manufacturing production, as well as, electricity consumption rose, relative to the levels in the preceding period.

Headline inflation, on a year-on-year basis, rose to 15.63 per cent in December 2021, driven by increase in both food and core components, indicating a reversal of 8 consecutive months of decline. Food and core inflation rose to 17.37 and 13.87 per cent, respectively, in December 2021, from 17.21 and 13.85 per cent, in November 2021. On a month-on-month basis, headline and food inflation also rose, while core inflation fell relative to the levels in preceding month.

State of the Nigerian banking system at the end of 2021 showed general improvement in the sector's resilience and robustness, though it was challenged by lower profitability. The industry non-performing loans, at 4.95 per cent, was below the regulatory maximum of 5.0 per cent, while liquidity ratio, at 41.33 per cent remain well above the regulatory minimum of 30.0 per cent. Industry capital adequacy ratio at 14.53 per cent, was below the 15.10 per cent at the beginning of 2021, but above the standard regulatory threshold of 10.0 per cent.

Growth across major monetary aggregates in 2021 were generally above the benchmarks, indicating significant expansion in money supply. Broad money supply (M_3) grew by 13.77 per cent, compared with 9.64 per cent benchmark for fiscal 2021, reflecting 10.70 and 18.50 per cent in net claims on government and claims on other sectors, respectively, which were above the target growth for fiscal 2021. Overall improvement in All-share index and aggregate market capitalization at the end of 2021 reflected the impact of capital market reform to enhance efficiency. Money market rates were generally lower, indicating banking system liquidity condition and impact of policies to stabilize markets.

State of the external sector at the end of 2021 reflected measured improvement, though the sector remains challenged by sub-optimal liquidity and exchange rate pressure. Improvement in the components and overall balance of payments, reflected positive trade balance, reduced imports, as well as higher government transfers and workers remittances. In 2021, the fiscal space struggled with low revenue, even as the Government face pressure for increased expenditure to further ameliorate the effects of pandemic-induced disruptions, finance infrastructure development, address insecurity challenges and inspire further expansion of economic activities.

Overall Considerations and Decision

Dragging pandemic, protracted disruption to supply-chain and impact of supply shortage induced inflation on income is a major headwind to global growth recovery. Persisting high prices and its likely effect on inflation expectations has heightened likelihood that advanced economies will soon commence a gradual wind down of the loose policy regime. Overall, vulnerability of recovery and sustained reopening may compel economies to settle for a trade-off between rate adjustment and direct interventions to forestall the big impact of a total discontinuation of the support system.

Sudden inflation uptick in December 2021, against the trend, raises concern. Although festivity related higher demand may have temporarily caused the increase in core inflation, higher food inflation in a post-harvest period raise more worries about the impact of protracted insecurity on farming activities and food supply. Expansion in monetary aggregate above the benchmark may be an indication of monetary angle to inflation, especially at a time of negative output gap. This is however expected to be addressed by liquidity management measures of the Bank.

Monetary policy leverages some assumptions, particularly about robustness and tidiness of fiscal policy, which enables policy effectiveness. However, tight fiscal space, huge deficit size, and its financing options, may be aggravating

inflationary pressure. While commending the initiative to redefine operations of Government Owned Enterprises so as to enhance revenue generation, it is hoped that pressure on prices from this area will abate as this progresses and Government explore other funding alternatives, including the Public Private Partnership.

The Bank has done so much to salvage the domestic economy, deploying interventions at lower interest rates to facilitate growth, and administratively managing liquidity to curb inflation under a stagflation environment. A thought about the outcomes and what would have been the counterfactual show that there is more to be done to fix the fundamental issues. Against the backdrop of a regime that prioritized growth, while keeping an eye on monetary and price stability, the policy space still faces the task of continuing to manage the trade-off between rationalizing interventions to preserve growth, while taming inflation.

The LDR policy has facilitated sustained flow of credit to the real economy, with lending rate trending below the level at the beginning of 2021, reflecting effect of the credit stimulating measures of the Bank. But current growth is far from being prosperous. High expectation of businesses from the sentiment survey and uptick in PMI reflects the Banks pro-growth policies. The rise in inflation in December 2021 warrants a watchful eye on monetary variables. In all, the MPC would continue to be mindful of not only what has happened or is happening now but also keep in focus, upcoming happenings that will directly or indirectly impact workings of the economy.

I therefore vote to retain:

- MPR at 11.5 per cent;
- Asymmetric Corridor of +100/-700 basis points around the MPR;
- CRR at 27.5 per cent; and
- Liquidity Ratio at 30 per cent.

10. EMEFIELE, GODWIN I.

GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

As the world adapts to life with Covid-19, recurring mutation of the virus is deterring the pace of global recovery; thus, levitating uncertainty, risks and imbalances. Regardless, output recovered above pre-pandemic levels (in major economies), with global growth projected at 5.9 and 4.9 percent in 2021 and 2022, respectively from –3.1 percent in 2020. The surge in global demand and consumer spending is, however, outpacing supply and overheating markets. Labour shortages (due to self-isolations), rising food and energy prices, and commodity scarcity (attributable to pandemic-related restrictions) are amplifying costs and elevating inflation above target in many economies. Short-term outlook indicates that continued output recovery is pulling inflation

expectations; warranting monetary tightening in advanced economies. This could spark capital repatriation from Emerging Markets and Developing Economies (EMDEs), heighten financial market vulnerability and complicate their fragile recovery.

For the Nigerian economy, following a strong pick-up of economic activities in 2021, short-term outlook remains positive, recovery is on course, and output could surpass pre-pandemic levels in 2022. Manufacturing Purchasing Managers' Index (PMI) for December 2021 expanded further to 52.0 points from 50.8 points in November, although the Non-Manufacturing index declined by 0.6 point. This reflected sturdy rebound of business activities, increased labour mobilisation, and expanding productive capacity. In-house analysis projects growth at 2.8 percent for 2022 from 3.1 percent estimated for 2021 and –1.9 percent in 2020.

Consolidation of the domestic economy is expected to be driven by stronger non-oil activities buoyed by the CBN's interventions in manufacturing, agriculture, infrastructure, healthcare and MSMEs. Cumulatively, these interventions stand at nearly N1trillion to smallholder farmers through the Anchor Borrowers Programme (ABP), about N1.4 trillion under the Real Sector Facility, over N108 billion for the Healthcare Sector Intervention Facility, and almost N370 billion through the Targeted Credit Facility (TCF) to households and businesses. The facilities are helping to resolve the long-standing structural constraints and bolster domestic productivity with favourable effects on market prices.

Though short-term inflation trend remains downward, recent data on domestic prices shows an uptick in headline rate from 15.4 percent in November 2021 to 15.6 percent. This reflects the slim rise in both food and core inflations to 17.4 and 13.9 percent, respectively. Analysis implies that the uptick is transient, yuletide-pushed, and exacerbated by security challenges along some food-producing belts. Price dynamics are worsened by logistic, distribution, storage

and middle-men problems, which widened the difference between farm-gate and market prices. These are being tackled through our infrastructure initiatives and the imminent commodity exchange platform. Near-term outlook suggests an episodic and momentary ascent of inflation early in 2022 which is projected to start to wane by the first quarter. The slight upside blip in inflationary trend is noted with concern and will be monitored closely. This emerging pressure is, however, expected to be dampened by the ongoing aggregate supply boosting policies of the CBN.

Trends in the money and financial markets show mixed trajectories of systemic liquidity conditions in December 2021. At 12.8 percent, the 2.1 percentage points (m-o-m) rise in OBB rate reflected interbank liquidity constraints, as customers' festivity-induced cash-holding preferences enlarged currency-outside-banks. Accordingly, money stock expanded further, with annualised M3 growth at 13.8 percent vis-a-vis 11.2 percent in November 2021. Net domestic asset quickened 15.6 percent (annualised) from 10.0 percent, reflecting the 30.7 percent rise in core private sector credits.

I note the robust and progressing path of domestic credits, spurred by the LDR policy and our stance on enhanced flows to strategic real sector ventures. I reiterate that the CBN will sustain credits to the private sector, even as I remain mindful of the risk aversion of banks to supposedly high-risk real sector ventures. I note the improvements in banks' Non-Performing Loans (NPLs) position and our continuing efforts at de-risking the target sectors. Robust credits will bolster domestic investment, household demand, and factor productivity, while fast-tracking economic diversification, and ensuring strong and inclusive growth.

In my consideration, I affirm that the objective of price and monetary stability remains sacrosanct to us. I note the continued improvement in short-term economic outlook as the output recovers to pre-pandemic levels following the various stimulus support by the Federal government and the CBN. I also acknowledge the shocks to inflation in the near-term both from domestic and

foreign sources. While the recent rise in domestic inflation is deemed transient, I note the significant elevation of global inflationary pressures, particularly among Advanced Economies, where the rate is manifold of target. The elevated inflationary trend that accompanied the worldwide pandemic-induced stimulus support, signals the immediacy of global monetary tightening with dire ramifications for EMDEs. This in addition, to the recent episodic rise in domestic inflation, justifies arguments to tighten, today, in order to tame expectations and, tangentially, mitigate possible capital outflows.

However, I note that though effective anchoring of inflation expectations is fundamental, economic recovery remains fragile, while per capita income and unemployment rate are outside tolerable levels. Widespread security challenges, infrastructural rigidities, and weak factor productivity diminish medium-term prospects and therefore need to be resolved urgently. I am of the view that a favourable dismantling of these challenges, reinforced by sustained application of our various intervention programmes will strengthen our domestic fundamentals and further boost short-term outlook. It also remains imperative to ensure a full diversification of the economy and create institutional structures that will insulate the economy from exogenous shocks.

My inclination today, given the near-term inflation expectations, is to tighten monetary policy stance. But cautious and well-balanced policy is irrefutable. The dilemma of the trade-off between inflation and output remains extant, and a rate hike could derail our modest recovery. I remain mindful of the need to pursue a policy of price stability without losing sight of the importance of economic growth. I am of the view that the current levels of policy parameters are appropriate and do not require adjusts. I prefer to allow the prevailing stance to continue to work through the system, as clearer direction is gleaned of potential shocks. To foster price stability and output stabilisation without introducing disruptive policy shocks, I, therefore, vote to:

1. Retain the MPR at 11.5 percent;

2. Retain the Asymmetric Corridor at +100/–700 basis points;
3. Retain the CRR at 27.5 percent; and
4. Retain Liquidity Ratio at 30.0 percent

GODWIN I. EMEFIELE, CON

Governor

January 2022